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Analysis of the global steel industry (BlueScope Steel Limited)

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1. Introduction

1.1. Company Overview

BlueScope Steel Limited is a steel products manufacturer and supplier which has business operation worldwide. The company operates its business from its headquarters in Melbourne, Australia and has subsidiaries in four regions around the world. These subsidiaries are BlueScope Steel Asia (Singapore), BlueScope Steel International Limited (London, the United Kingdom), BlueScope Steel Americas LLC (Sammamish, the United States) and Butler Manufacturing (Kansas City, the United States). (Datamonitor, 2006)

1.2. Company History

BlueScope Steel Limited is the new name of Broken Hill Proprietary (BHP). Broken Hill Property (BHP) was founded in 1885 as a company that mined silver, zinc and lead. BHP started making steel in 1915 at a plant in Newcastle was established to meet demand. Its first overseas marketing office was opened in Singapore in 1935, the same year it acquired Australian Iron and Steel (AI&S). It acquired John Lysaght (Australia) as a wholly own subsidiary in 1979. New Zealand Steel became a member of the BHP Group in 1989. In July 2002, BHP was listed on the Australia Stock Exchange and it changed its name to BlueScope in November 2003. BlueScope invested in two new manufacturing facilities in China in January 2005 after it acquired Butler Manufacturing in the US in 2004. In November 2005, BlueScope Steel made a joint venture with Tata Steel while it started its new metallic coating production line in Vietnam (Datamonitor, 2006).

1.3. Major Products and Services and Main Competitors

BlueScope Steel Limited encompasses two groups of products and services which are flat steel products and steel building products. Flat steel products are Slab, cold rolled coil, hot rolled coil, tin plate and value-added metallic coated and painted steel products. Steel building products are rainwater products, roof and wall cladding, fencing, steel house framing, and structural products. Nippon Steel Corporation, POSCO, Arcelor are the main competitors of BlueScope Steel Limited (Datamonitor, 2006).

1.4. Financial Statement

BlueScope generated revenue of 8.315 billion Australian dollars in 2006, an increase of 4.39% and a net income of 342.8 millions Australian dollars, a decrease of 65.17% over 2005 (BlueScope Steel, n.d.). According to BlueScope Steel (2006), the increase of revenue over 2005 was contributed to by higher Australian domestic prices, the increased sales of Coated and Building Products in North America, and higher Australian domestic prices. However, the huge decrease in net income was caused by looses of Package Products and Lysaght Taiwan, restructuring and business development costs, and pre-operating costs of new foreign operations especially in Asia.

1.5. The Report objectives

The main discussion objective of this report is to undertake analysis of the global steel industry, and to assess BlueScope Steel Limited's position and prospects within this industry and steel market. In the global steel analysis, some main points are discussed such as the competitive situation and market analysis and forecast. The SWOT and value chain Analysis models are used to analyze BlueScope's situation. The problems found in the analysis will be discussed and the appropriate solutions will be developed for the company to avoid such problems in the future.

2. Discussion

2.1. World Steel Industry

Europe, the Asia-Pacific region and the Americas are the main steel markets in the world. The Asia-Pacific steel industry accounts for the largest portion (over 57%) of the global steel industry's total value in 2005. The total revenue of the global steel industry was $450.167 billion with a compound annual growth rate of 26.4 percent for the five-year period from 2001 to 2005. In this period, there was a compound annual growth rate of 34.9 percent of the Asia-Pacific steel industry and 15.1 percent in the European steel industry. The total volume of the global steel industry was 935.9 million tones in 2005 which shows a compound annual growth rate of 6.8 percent between 2001 and 2005. The global steel industry's value was forecast to slightly drop by 0.2 percent of the compound annual

change for the five-year period 2005 to 2010. Over this period, The Asia-Pacific and European steel industries were also estimated to fall with compound annual rate of changes of 0.2 and 0.1 percent respectively. (Datamonitor, 2006)

There are 3 geographical segments of the global steel industry, Asia-Pacific steel industry (which accounts for 57.20 percent of global steel's total value), Europe (25.50 percent) and the Americas (17.30 percent). There are four leading steel manufacturers in the world which are Mittal Steel (accounts 6.30 percent of global steel's total value, Arcelor (5.40 percent), Nippon Steel (3.40 percent) and POSCO (3.30 percent). (Datamonitor, 2006)

Mittal Steel is the largest steel company in the world. It was founded in 1976 in Indonesia. It produced a capacity of about 75 million tons in 2005 and its headquarters are in Rotterdam, The Netherlands. It created US$28,132 million in revenues in 2005, an increase of 26.7 percent over 2004 and US$3.365 million net income in 2005, a decrease of 28.4 percent from 2004. Its main products and services are pig irons, flat products, long products, wire products, pipes and automotive application steels. Nippon Steel Corporation is a world leading integrated steel maker and it operates its business in many sectors such as construction, electronics, chemical, nonferrous metals, engineering, service and information. It mainly operates its business in Japan and its headquarters are in Tokyo, Japan. It generated revenues of US$33.2 billion in 2006, a 15.3 percent increase over 2005 and US$2.9 billion of net profit in 2006, an increase of 55.9 percent over 2005. POSCO is a world leading manufacturer and supplies of steel products. It generated revenues of US$26.4 billion in 2005, a 9.7 percent increase over 2004 and $4 billion net profit in 2005, a 5.2 percent increase over 2004. Its main products are stainless steel products, silicon steel sheets, plates, wire rods, and cold-rolled and hot-rolled products (Datamonitor, 2006).

According Datamonitor (2006), the construction and engineering industry is expected to steadily grow with a compound annual growth rate of 4.1 percent over the period of 2005-2010. This anticipated growth will be contributed to by strong growth in construction and engineering in Russia and Eastern Europe, as well as continued strong development in Asia-Pacific and a recovered US economy. This anticipated growth in the construction and engineering industry will lead to an increase in world steel demand and will be a sign for steel manufacturers to prepare to be competitive in the future larger steel

industry. However, Prices (2007) shows Australian-based analysts forecast that the price of iron ore will increase by 7 to 10 percent in 2008 because of increased demand from China. This increase may contribute to higher material costs for steel manufacturers in 2008.

2.2 SWOT Analysis of BlueScope Steel Limited

Panagiotou (2003) states that SWOT analysis is a process of analyzing the internal and external environments of an organization or company in order to identify strengths, weaknesses, opportunities and threats of that organization. It enables the organization to use its strengths to benefit from the opportunities and to improve its weaknesses as well as to prevent the threats.

a. Strengths

BlueScope Steel (2004) shows that BlueScope Steel has merged with Butler Manufacturing Company (US), the world's leading company which manufactures and provides engineered steel building systems and has number one market position in China and North America. Bartlett, Ghoshal and Birkinshaw (2004) mention that alliances allow partners to reach economies of scale, to leverage and share each others' capabilities and specific strengths, and save the cost of duplication by each partner. Therefore, the combination of these two companies will allow BlueScope Steel to achieve economies of scale, because it can use Butler's strong distribution network to expanse its Chinese and North American markets. In addition, BlueScope Steel (2004) mentions that the combination of these two companies makes for a very strong presence in the global steel building components and pre-engineered building markets, with six manufacturing facilities and fifty sales offices in China. This means that BlueScope Steel has a strong sales network which is a competitive advantage in the Chinese market.

BlueScope Steel (2004) states that BlueScope Steel has invested in a new flat steel metallic coating and painting facility in China. Because a range of premium branded products of the company have already been hugely accepted in China, the company decided to establish a new plant there to mainly manufacture their ZINCALUME and COLORBOND brands for the Chinese local market. Through this new plant, the company

can save on design and technology development costs, because it can use the technology and design of these two products from the parent company in this Chinese subsidiary. It also contributes to saving transportation costs on bringing products from overseas plants into China. According to Metal Center News (2007), steel demand in China will increase by thirteen percent in 2007 and another ten percent in 2008. As ZINCALUME and COLORBOND are already popular in China, they will allow the BlueScope's plant in China reach economies of scale as the demand increases. It is also argued by Rugman (1980) that a multinational enterprise can get many specific advantages from its international diversification through foreign direct investment and these specific advantages are managerial expertise, economies of scale, financial strength, product differentiation, and knowledge or technological advantage.

BlueScope Steel (n.d.) states that energy is a necessary component for every process of steel making and this makes up about seventeen percent of the operating costs at BlueScope's Australian steelworks. BlueScope's advanced technology of an integrated steelworks has reduced the energy required to produce a tonne of 'slab' by about 28 percent since 1978. This lower energy consumption has contributed to the reduction in operating costs. In addition, BlueScope Steel (n.d.) mentions that the company has a product recycling system which allows the company to recycle used-steel as its raw materials, thus helping company to reduce the pressure or impact from its raw material suppliers. This recycling system contributes to saving the environment which allows the company to be a socially responsible company.

BlueScope Steel (n.d.) states that a goal-oriented teamwork of the Transport and Logistics division of SlueScope Steel has developed a new innovative sliding canopy truck and RoboRacks (removable and adjustable racks). These two innovative equipments are a biggest contributor to improving safety and efficiency of transportation sector of BlueScope in term of saving much time and reducing injuries and mistakes while loading and unloading steel products. These new technologies contribute to the company's labor costs reduction, reducing costs on mistakes, time saving in transportation and improving work condition (safety).

b. Weeknesees

According to BlueScope Steel (n.d.), there was a drop in net income at most of segments such as hot rolled products and coated and building products in Australia, New Zealand and Pacific steel products, coating and building products in Asia, and hot rolled products in North America. This decrease in net income in these areas were mainly caused by lower domestic demand, higher raw material cost (especially in China and Australia), higher energy costs, and lower local and international prices. These shows that most of main subsidiaries of BlueScope could not make more revenues but has spent more on raw material and energy costs, as a result, there was a huge drop in total net income (65.17 percent over 2005) of the company .

BlueScope Steel (2006) states that a dramatic decrease in tinplate demand and the huge increase of raw material costs in Australia caused BlueScope to restructure by reducing about 250 positions amongst management and staff. The one-off restructuring program was estimated to cost about $150 to $200 million, or $0.15 to $0.20 per share. As Australia is the home market of the company, the decrease in local demand has had a huge impact on the whole company's operations because most of the advanced technologies, human resources and other main infrastructures are situated at the headquarter in the home market. In addition, ABC NEWSONLINE (2007) reported that BlueScope would close its tin mill at Port Kembla in April 2007 because of the reduced demand and increased raw material prices and that the company was facing problems in dealing with employees due to this closure.

BluScope Steel (2006) mentions that BlueScope decided to close its manufacturing facilities and leave the Taiwanese construction market in October 2006 because it operated alone and could not benefit the company's other operations. This closure of facilities in Taiwan and the company's exit from the Taiwanese market will negatively affect the world scale economies of the company and the company's responsibility for the employee redundancies due to this closure.

c. Opportunities

BlueScope Steel (2003) states that BluesScope has a strong research and development section with many R&D specialists, who cooperate with other colleagues around the world. This R&D section is responsible for maintaining and strengthening the existing world brands such as COLORBOND and ZINCALUME as well as for improving all products' quality. This section actively works through the company's business, so, it is able to find the problems and weaknesses of the existing products and develop solutions for future products. For example, the section found paint formulations to reduce heat and noise for the future steel products. This section can be a differentiator, because it studies on the local markets of subsidiaries then innovates and designs products to meet the local need and preferences.

According to Metal Center News (2007), the International Iron and Steel Institute estimates that world steel demand will increase by 5.9 percent in 2007 and the Brussels-based association forecast an increase of 6.1 percent in world steel demand in 2008. It also shows that the strongest growth trends are in South America, Asia and Africa. As BuleScope already has subsidiaries with strong business performance in Asia and North America (new manufacturing facilities in China and an alliance with Butler, the number one company in North America and China), BlueScope will be able to increase its sales volume and market share of the estimated world steel demand. As its sales will increase, it will be able to gain efficiencies in its economies of scale.

BlueScope Steel (2005) announced a 50/50 joint venture with Tata Steel in India, the second most populated country in the world. Tata steel is the largest Indian private sector steel company which focuses on the high-end steel market for the construction and automobile industries. Tata has six manufacturing facilities in South-East Asia and China and it owns collieries and coal mines, iron-ore and chromite mines which are located near its plant. The joint venture between BlueScope Steel and Tata Steel is aimed to develop a steel building and coating solutions business and to bring premium quality products into South and North Asia and the new facilities are expected to start operation in 2008. As BlueScope has strong painting and coating technologies including strong and successful brands such as COLORBOND and ZINCALUME and Butler brand of pre-engineered steel buildings, BlueScope will be able push these product brands into India, and North and South Asia through its joint venture with Tata Steel. The main benefit for BlueScope from

this joint venture is that it can expand its markets in North and South Asia through the new facilities and Tata's existing distribution network and manufacturing facilities in South-East Asia. As Ohmae (1989, cited in Bartlett et al., 2004) states that a company makes joint ventures with appropriate foreign local partners in order to share fixed costs, mix technologies together to produce competitive products and increase sales in foreign markets. BlueScope can also benefit from this joint venture in terms of the raw materials from Tata's owned mining sector.

d. Threats

According to Nippon Steel & POSCO (2006), there is currently in progress an extension of the alliance of two of the largest steel producers (Nippon Steel Corporation and POSCO) for another period of five years from 2007 to 2011. This extension aims to further stabilize and increase the efficiencies of operations in the facilities of both companies and to respond to environmental problems. Both companies have agreed to study and install a dry-dust recycling system at two facilities of POSCO. The extension of this alliance between two largest competitors will negatively impact BlueScope's competitiveness and business operations.

Prices (2007) states that because of the expected rise in iron ore demand for steel production in China, iron ore prices will increase 7 to 10 percent in 2008. This anticipated price increase will lead to higher raw material costs for BluScope's steel production and, as a result will be an impact on net income of the company.

According to Kamalick (2007), the US department of Energy has estimated that oil prices will increase by 18.5 percent to reach US$57.50 per barrel in 2010. This estimated increase of oil price will cause higher energy costs for BluScope's operations.

2.3. Value Chain Analysis of BlueScope Steel Limited

Porter (cited in Bartlett et al., 2004) states that all main activities of a company are grouped into two groups which are primary and support activities. The primary activities are production processes, marketing, distribution and after sale services. The support activities are infrastructures or inputs that support the primary activities work. The company can gain two main competitive advantages which are low cost and differentiation

through how the company internationally spreads these activities in the value chain in the whole business. Through value chain analysis, the company can identify its efficient and inefficient activities and the company can decide which company activities should be outsourced.

In BlueScope, the advanced technology of an integrated steelworks is a company's competitive advantage, which supports and facilitates steel manufacturing processes (the operation which is a primary activity of value chain) to reach high efficiency. It contributes to a cost advantage for the company in terms of reducing more than 20 percent of energy consumption.

The company's development of canopy and RoboRacks also contributes to the company's competitive advantage in terms of supporting the transportation section in order to improve the efficiency of company's distribution process. It enables company to reduce costs of loading and unloading of steel products and achieve huge time savings.

The research and development section and staff support activities the company by adding value to its products through product differentiation, such as painting formulations it developed to reduce heat and noise in core roofing and walling products.

Porter (1986) states that a multinational company can gain more competitive advantage by transferring the company's capability from the parent company to foreign countries. Therefore, BlueScope's innovative technologies and product formulations can be transferred to the company's overseas subsidiaries such as its new plant in China and other joint venture facilities in other countries. Through this transfer of the company's strengths to overseas subsidiaries, BlueScope can enjoy cost advantages in labor and transportation in China and India.

BlueScope Steel (2002) states that in terms of reducing costs of advertising and delivering information of company, it has outsourced the company website's design and hosting services to Daemon and Bulletproof companies. Through the enhancement provided websites designed and hosted by these two companies, BlueScope customers can find information on its website more easily and quickly. This new website enables BlueScope to save $400,000 per month on printing, handling and postage of hard copy information, because customers can download information from this improved websites. This shows that the company outsourced its website enhancement to the professional

companies in order to save costs for delivering information through hard copies. And this also facilitates the information finding by customers.

BlueScope can outsource a part of the marketing activity of the company such as promotional programs and activities and new products orientation, especially in overseas markets. The company can make contracts with local or international marketing companies on in order to conduct products promotion and market research for the company. BlueScope can save marketing costs by outsourcing this activity to external professional marketing companies, so that the company does not need to spend on establishing a marketing section and employing staff for this section in every overseas market. Furthermore, professional marketing companies can do it better than the company does, because they have experience, human and other resources for this specific purpose.

2.4. Causes and Learning Issues

Through analysis of the BlueScope, some significant problems relating to a global manufacturing company have merged, such as decrease in net profit, facilities closures, business withdrawal from overseas markets and competitive pressure. The decrease in net profit is caused by the increased costs of raw material and energy and the decrease in demand for the company's products. In order to avoid this problem in the future, the company can develop an effective waste management system to reduce waste in every process of production. The company can innovate a recycling system then collects the used products for recycling to reduce some of its raw material consumption. Another option is for the company to acquire some raw material suppliers to reduce pressure from increases in raw material prices in the future.

Facility closure is mainly caused by high raw material price and low product demand. The company can study and forecast the raw material prices and product demand before establishing a manufacturing facility in the future. For overseas facilities such as BlueScope's facilities in Taiwan, the company can export products to sell in that overseas local market or make a joint venture with a potential local producer.

Competitive pressure is a main problem for a global manufacturing company which is caused by other potential competitors merging or making a joint venture together. This merger or joint venture of competitors can cause the company lose the competitiveness. To

compete in this competitive landscape, the company can joint with other potential competitors in order to regain its competitiveness and improve its position in the industry.

3. Recommendation

The joint venture between BlueScope Steel and Tata (India) is an opportunity and can be a strength for BlueScope in making it a leading steel producer and supplier in South and North Asia. BlueScope can benefit from Tata's local knowledge of the Indian and North and South Asian markets by using Tata's existing local facilities, sale network and market intelligence. It is also stated by Inkpen and Beamish (1997) that a foreign partner can enter a new market more quickly and at low cost by borrowing existing infrastructure of a local partner. This joint venture is necessary for BlueScope to access into North and South Asian markets, so, BlueScope should focus on maintaining and further developing this relationship long term. Inkpen and Beamish (1997) suggest that there are there are some approaches to maintaining an international joint venture with a good long term relationship. These approaches are a transparent identification of the knowledge of each partner, building an independent joint venture entity with its own culture and systems, and fostering good relationship between the top management of the two parent companies which represents to improve communication between both parent companies.

4. Conclusion

BlueScope will be able to successfully access the North and South Asian markets and will be a leading steel manufacturer and supplier in this region if it can maintain this joint venture with Tata. This means it will have the largest and most competitive sales force which will provide a strong barrier for new entrants in the market in this region. When it gains large market share in North and South Asia, BlueScope will be a significantly better position to achieve global economies of scale. However, BlueScope will lose its golden opportunity to be a leading steel manufacturer and supplier in North and South Asia if it can not maintain this joint venture with Tata. Furthermore, if Tata ends this joint venture with BlueScope and after that joints with another competitor, its new joint venture will be a strong barrier for BlueScope to access this region in the future. As a result, BlueScope will be less competitive in the global steel industry if it can not access this market.

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